



ANNUAL REPORT 2001-2002
Plan D



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1-800-MET-4-KID
(1-800-638-4543)

(517) 335-4767

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STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

JENNIFER M. GRANHOLM
GOVERNOR

JAY B. RISING
STATE TREASURER

April 2003

Dear MET Participants:

We are pleased to present the fiscal year 2001-02 annual report for the Michigan Education Trust (MET). The actuarial report prepared by PricewaterhouseCoopers L.L.P. shows the MET fund for Plan D contracts was actuarially sound and 94% funded with a deficit of approximately \$12,873,763 as of September 30, 2002. While weak investment performance, which mirrors that of the stock market, and higher than expected tuition increases have affected the Plan's current funding ratios, it is important to note that the program is currently able to pay benefits through 2019 even if no new contracts were issued.

In January 2003, we issued the first 1099-Q's as a result of the Economic Growth and Tax Relief Reconciliation Act (EGTRRA) of 2001 passed by the U.S. Congress. This Act provides full tax exemption, therefore, MET participants are not required to add MET earnings to taxable income if benefits are used to pay for qualified higher education expenses. The tax exemption provision of EGTRRA will sunset in 2010 unless Congress acts to provide a permanent exemption.

The MET Board of Directors and staff applaud all contract purchasers for encouraging and motivating your beneficiaries to pursue post-secondary education by participating in the MET program. The MET staff is enthusiastic about the future of the program and encourages you to call the MET office with any questions or concerns you may have at (800) MET-4-KID (638-4543) or (517) 335-4767 in the greater Lansing area. You may also reach us at our new user-friendly Web site address www.met4kid.com.

Sincerely,

Jay B. Rising
MET Chairman
State Treasurer

Robin R. McMillan
Executive Director
Michigan Education Trust

MET BOARD AND LEADERSHIP

A nine-member Board of Directors administers the MET program. Board members are responsible for policy development, investment initiatives, program development and implementation. The Governor, on advice, and consent of the Senate, appoints MET Board members, who represent expertise in business, academics or finance. By statute, the State Treasurer, Jay B. Rising, serves as Chairman. Robin McMillan, Executive Director, serves as liaison to the MET Board of Directors and administers MET operations.

MICHIGAN EDUCATION TRUST BOARD OF DIRECTORS

MR. JAY B. RISING
State Treasurer
MET Chair

MR. RICHARD M. GABRYS
MET President
Vice Chairman, Deloitte & Touche LLP

MR. THOMAS P. SULLIVAN
MET Vice President
President, Cleary College

DR. WILLIAM A. SEDERBURG
President, Ferris State University

MS. STACIA K. SMITH
Marketing Manager Specialist, Visteon Corp.

MR. LON SCHNEIDER
Superintendent, Cadillac School District

MR. TAYLOR SEGUE, III
Attorney, Howard and Howard

MS. KATHLEEN SCHMALTZ
Entrepreneur

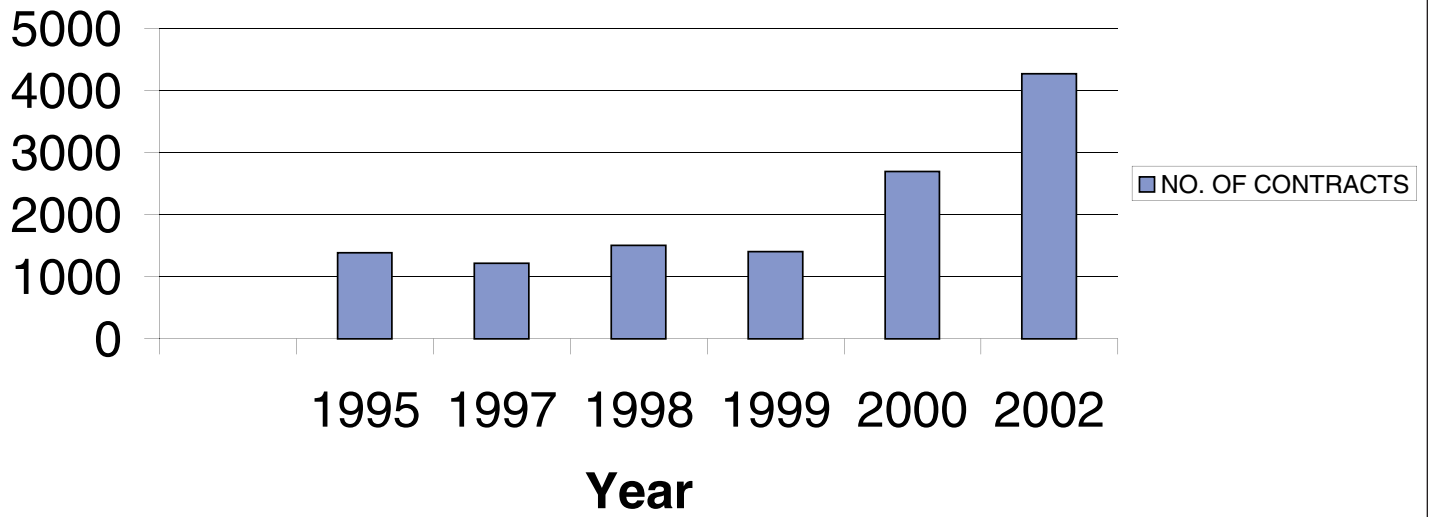
MS. STEPHANIE M. WILKINSON
CPA, Port Huron School District

THE MET PROGRAM

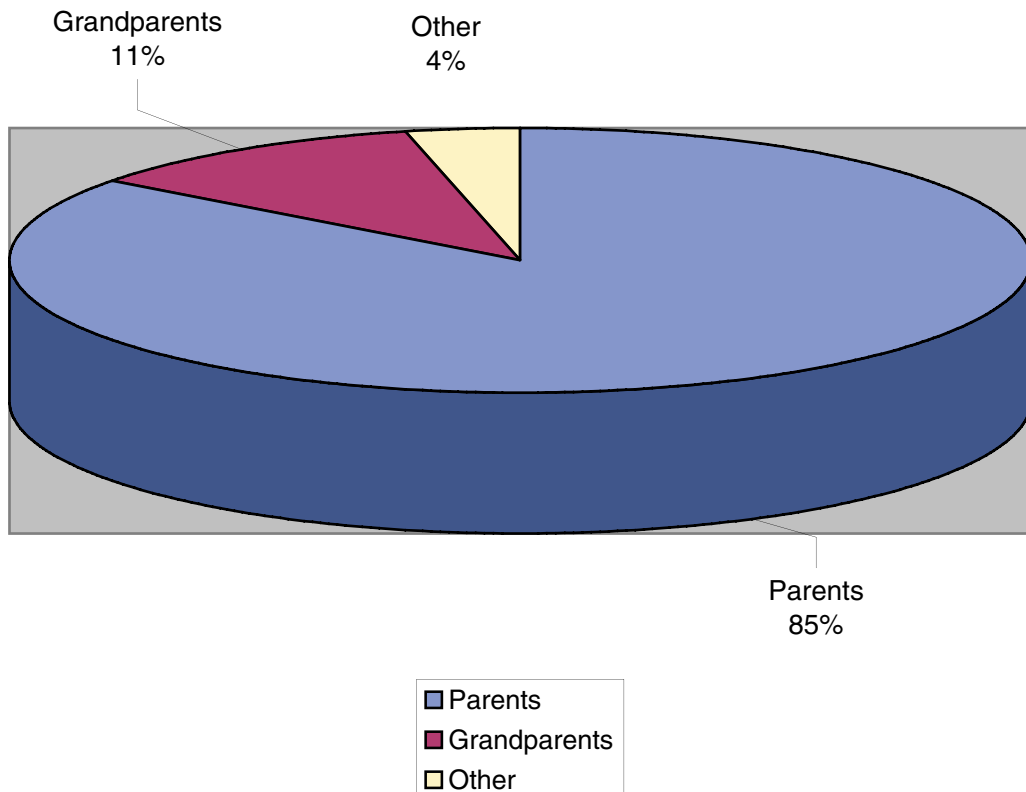
Michigan Education Trust (MET) is Michigan's Section 529 prepaid tuition program established by Public Act 316 of 1986. MET is administratively located within the Department of Treasury, Bureau of Student Financial Assistance. A nine-member Board of Directors and a twelve-member staff administer the MET program.

MET allows parents, grandparents, businesses and others, to make contributions, at the current rate of tuition, for a child to attend any Michigan public college in the future. Michigan is the first state in the nation to enact legislation for a prepaid tuition program. Today, all 50 states have established similar prepaid or college savings programs.

**Contracts Purchased
Under Plan D**

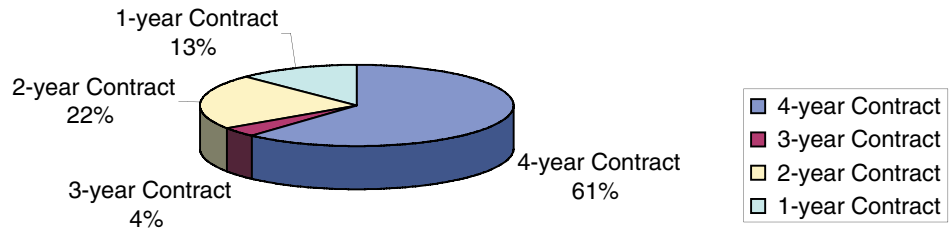


**Relationship of Contract Purchasers
Under Plan D**

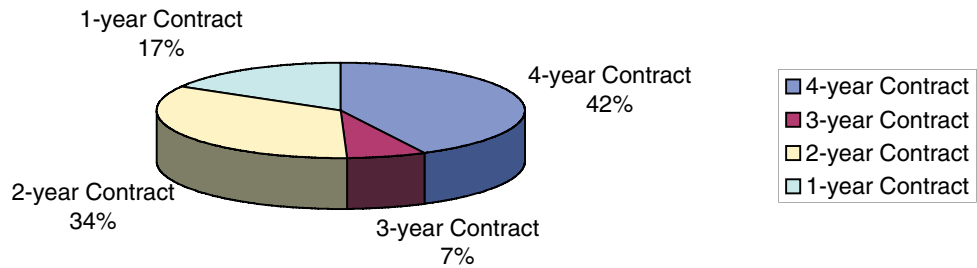


Years Purchased By Type of Contract Under Plan D

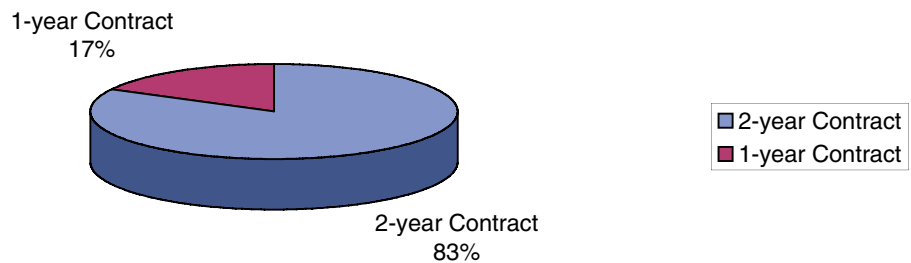
Full Benefits Contracts

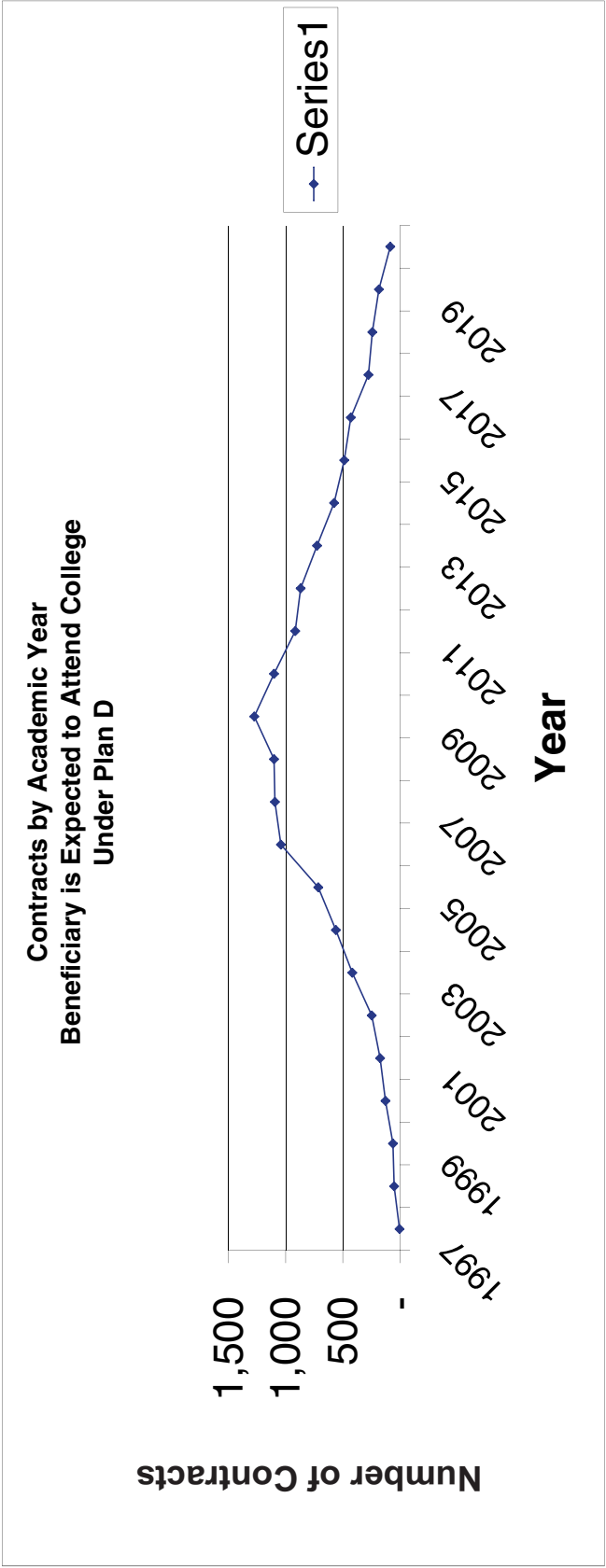


Limited Benefits Contracts



Community College Contracts





November 15, 2002

Dr. Douglas Roberts
Chairman of the Board of Directors of the
Michigan Education Trust
Department of Treasury
P. O. Box 30198
Lansing, Michigan 48909

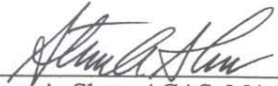
Dear Dr. Roberts:

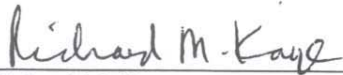
We have performed an actuarial valuation of Plan D ("MET II") of the Michigan Education Trust ("MET II" or "the Trust"), at the request of the Trust as of September 30, 2002. The valuation is based on data furnished by MET regarding the contracts submitted during the 1995, 1997, 1998, 1999, 2000 and 2002 enrollment periods and payments made under those contracts; unaudited financial data provided by MET; the actuarial basis described herein and the contract provisions in effect for the 1995, 1997, 1998, 1999, 2000 and 2002 enrollments.

We have determined that as of September 30, 2002, based on the aforementioned data and assumptions, the actuarial present value of Plan D benefits exceeded the market value of Plan D assets by \$12,873,763.

The valuation was performed based upon generally accepted actuarial principles, and tests were performed as considered necessary to ensure the accuracy of the results. We certify that the amounts presented in the accompanying report have been appropriately determined according to the actuarial assumptions stated herein.

Respectfully submitted,


Steven A. Skov, ACAS, MAAA
Principal Consultant
PricewaterhouseCoopers LLP


Richard M. Kaye
Fellow of the Society of Actuaries, CPA
Richard M. Kaye & Associates



STATE OF MICHIGAN
OFFICE OF THE AUDITOR GENERAL
201 N. WASHINGTON SQUARE
LANSING, MICHIGAN 48913
(517) 334-8050
FAX (517) 334-8079

THOMAS H. MCTAVISH, C.P.A.
AUDITOR GENERAL

Independent Auditor's Report on
the Financial Statements

November 15, 2002

Dr. Douglas B. Roberts, Chairman
Board of Directors
Michigan Education Trust
Treasury Building
Lansing, Michigan

Dear Dr. Roberts:

We have audited the accompanying statement of net assets of Plan D of the Michigan Education Trust, a component unit of the State of Michigan, as of September 30, 2002 and the related statement of revenues, expenses, and changes in net assets and the statement of cash flows for the fiscal year then ended. These financial statements are the responsibility of the Michigan Education Trust's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the Michigan Education Trust Plan D as of September 30, 2001 were audited by other auditors whose report dated December 20, 2001 expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1B, the accompanying financial statements present only Plan D of the Michigan Education Trust and are not intended to present fairly the financial position and results of operations and cash flows of the State of Michigan or its component units, including the Michigan Education Trust as a whole.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the Michigan Education Trust Plan D as of September 30, 2002 and the results of operations and cash flows for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 15, 2002 on our tests of the Michigan Education Trust's compliance with certain provisions of laws, regulations, contracts, and grants and on our consideration of its internal control over financial reporting. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Sincerely,

Thomas H. McTavish, C.P.A.
Auditor General

***Management's Discussion and Analysis
Michigan Education Trust
Plan D***

This is a discussion and analysis of the financial performance of the Michigan Education Trust (MET), Plan D, for the fiscal year ended September 30, 2002. MET is an Internal Revenue Code (IRC) Section 529 prepaid tuition program and is a component unit of the State of Michigan, administratively located within the Michigan Department of Treasury. MET's management is responsible for the financial statements, footnotes and this discussion.

Using the Financial Report

In June 1999, the Governmental Accounting Standards Board (GASB) released Statement No.34 *Basic Financial Statements -and Management's Discussion and Analysis -for State and Local Governments*.

- The new reporting standards require a Statement of Net Assets, Statement of Revenues, Expenses and Changes in Net Assets and Statement of Cash Flows.

This financial report includes the report of independent auditors, the management's discussion and analysis, the basic financial statements in the new format and notes to financial statements.

The financial statements are interrelated and represent the financial status of MET

The Balance Sheet is now referred to as the Statement of Net Assets which includes the assets, liabilities and net assets, at the end of the fiscal year.

The Statement of Revenues, Expenses and Changes in Net Assets presents the revenues earned and expenses incurred during the year.

The Statement of Cash Flows presents information related to cash inflows and outflows summarized by operating and investing activities.

Analysis of Financial Activities

The MET Board of Directors approves an annual budget and the investment portfolio allocation. The Michigan Department of Treasury, Bureau of Investments, under the direction of MET management, is responsible for short and long-term investment of MET funds. The MET portfolio for Plan D may be invested up to 30% in equities.

MET funds are invested to coincide with the students expected years of high school graduation. Once students activate their contracts, colleges and universities submit invoices to MET every semester for tuition and mandatory fees. Students have nine years from the expected year of high school graduation to completely use MET contract benefits.

Annually, the actuary determines the actuarial soundness of each MET plan. Key factors used in the soundness analysis are: tuition increases (short and long-term), investment performance, and college selection against the Trust by students and purchasers.

Overall MET Plan D experienced a 58% increase in new contract enrollment which increases the asset value and future liabilities. MET received 4,266 new contracts with nearly \$40 million in prepaid tuition amounts, during fiscal year 2002.

Comparison of Current Year Results and Prior Year

Condensed Statements of Net Assets as of September 30, (in thousands)

	2002	2001
Current assets	\$ 55,721	\$ 31,999
Noncurrent assets	143,319	96,033
Total assets	\$199,040	\$128,032
Current liabilities	\$ 7,049	\$ 1,742
Noncurrent liabilities	204,865	122,633
Total liabilities	211,914	124,374
Net assets-restricted	(12,874)	3,658
Total net assets	\$ (12,874)	\$ 3,685

Overall, the net assets decreased by approximately \$16.5 million

Current assets increased primarily due to the increase in cash and cash equivalents. Cash and cash equivalents include short-term investments. This line item increased as of September 30, 2002, because some investments matured and the proceeds were not immediately reinvested in the long-term portfolio due to the market volatility.

Tuition contracts receivable increased by \$17.94 million and noncurrent assets increased to reflect an increase in new contract prepaid tuition amounts received in fiscal year 2002 which included lump-sum and monthly purchase contracts.

The MET Plan D target portfolio is 70% invested in short-term investments, U.S. government securities and corporate bonds and 30% invested in equities. The actual portfolio was 83% fixed income investments and 17% equity.

Amounts due to MET Program (Plans B & C) decreased primarily due to an increase in tuition expenses reimbursed to MET I during fiscal year 2002.

Accounts payable increased due to a security purchased prior to September 30, 2002 and settled in the new fiscal year.

The tuition benefits payable increase reflects the changes in the actuarial present value of the future tuition obligation and increases for new contracts issued. Changes in the present value of the future tuition benefit obligation include the changes in the present value discount due to the passage of time, differences between actual experience and the actuarial assumptions utilized, and any changes in actuarial assumptions. As a result, total current liabilities increased overall in fiscal year 2002.

Noncurrent tuition benefits payable increased to reflect the increase in lump-sum and monthly purchase contracts received.

Condensed Statements of Revenues, Expenses and Changes in Net Assets for Fiscal Year Ended September 30, (in thousands)

	2002	2001
Operating Revenues		
Interest and dividends	\$ 1,972	\$ 2,104
Net realized and unrealized Appreciation (depreciation) in The fair value of investments	(53)	278
Other	273	182
Total operating revenue	\$ 2,193	\$ 2,565
Operating Expenses		
Salaries and other administrative Expenses	597	559
Tuition benefit expense	18,127	4,954
Total operating expenses	18,724	5,512
Operating income (loss)	\$ (16,532)	\$ (2,947)
Increase (decrease) in net assets	\$ (16,532)	\$ (2,947)
Net assets -beginning of fiscal year	3,658	6,605
Net assets -end of fiscal year	\$ (12,874)	\$ 3,658

Net realized and unrealized appreciation (depreciation) in the fair value of investments decreased primarily because of a decrease in market value of investments in equities during the year and contributed to an overall decrease of operating revenues in 2002.

Salaries and other administrative expenses increased. This increase is attributed to the increase in cost of marketing, bank service charges and distribution of program materials.

Tuition benefit expenses increased due to the actuarially determined tuition benefit obligation.

Condensed Statements of Cash Flows for Fiscal Year Ended September 30, (in thousands)

	2002	2001
Cash provided (used) by:		
Operating activities	\$ 48,196	\$ 26,856
Investing activities	(28,733)	(6,315)
Net increase (decrease) in cash	19,463	20,541
Cash -beginning of the year	24,394	3,852
Cash -end of the year	\$ 43,857	\$ 24,394

Contract receipts increased due to new lump sum contracts received. Contract payments increased to reflect more students using contracts to attend college. Net cash provided by operating activities reflects an overall increase due to these items for fiscal year 2002.

Investment security purchases exceeded the proceeds from sales and maturities of investment securities by \$28.7 million to arrive at the net use of cash by investing activities for fiscal year 2002.

The stock market was very volatile for the third consecutive year, which negatively impacted Plan D. However, open enrollment for the year resulted in a 95% increase in prepaid tuition amounts received, as compared to amounts received in the prior fiscal year. Prepaid tuition receipts translate to an increase in the tuition liability, however, the actuarial soundness of MET is based in part on new contracts being purchased.

Factors Impacting Future Periods

It is expected that Michigan public universities will adopt higher tuition increases next year if state appropriated funds decrease.

MET enrollment for 2003 will be held January 2, 2003 through August 30, 2003. New enrollments will increase cash, future tuition benefits payable and the asset base of MET Plan D.

MICHIGAN EDUCATION TRUST PLAN D

Statement of Net Assets As of September 30

ASSETS	<u>2002</u>	<u>2001</u>
Current Assets:		
Cash and cash equivalents (Note 3)	\$ 43,856,676	\$ 24,393,562
Tuition contracts receivable (Note 4)	11,600,324	7,316,299
Amounts due from Primary Government	266	-
Interest and dividends receivable	<u>263,243</u>	<u>288,933</u>
Total Current Assets	55,720,509	31,998,854
Noncurrent Assets:		
Investments (Note 3)	107,675,555	74,042,521
Tuition contracts receivable (Note 4)	<u>35,643,849</u>	<u>21,990,859</u>
Total Assets	<u>\$ 199,039,913</u>	<u>\$ 128,032,234</u>
LIABILITIES		
Current Liabilities:		
Amounts due to MET Program (Plans B & C)	\$ 595,868	\$ 741,551
Accounts payable -Vendors	4,953,125	-
Tuition benefits payable (Notes 5 & 6)	<u>1,500,000</u>	<u>1,000,000</u>
Total Current Liabilities	7,048,993	1,741,551
Noncurrent Liabilities:		
Tuition benefits payable (Notes 5 & 6)	<u>204,864,683</u>	<u>122,632,808</u>
Total Liabilities	<u>211,913,676</u>	<u>124,374,359</u>
NET ASSETS		
Net Assets -restricted	<u>(12,873,763)</u>	<u>3,687,875</u>
Total Net Assets	<u><u>\$ (12,873,763)</u></u>	<u><u>\$ 3,657,875</u></u>

The accompanying notes are an integral part of the financial statements.

MICHIGAN EDUCATION TRUST PLAN D
Statement of Revenues, Expenses, and Changes in Net Assets
Fiscal Year Ended September 30

	<u>2002</u>	<u>2001</u>
OPERATING REVENUES		
Interest and dividend income	\$ 1,972,296	\$ 2,104,341
Net realized and unrealized appreciation (depreciation) in the fair value of investments	(52,851)	278,411
Other miscellaneous income	<u>273,073</u>	<u>182,290</u>
Total Operating Revenues	<u>2,192,518</u>	<u>2,565,042</u>
OPERATING EXPENSES		
Salaries and other administrative expenses	597,340	558,626
Tuition benefit expenses	<u>18,126,816</u>	<u>4,953,783</u>
Total Operating Expenses	<u>18,724,156</u>	<u>5,512,409</u>
Operating Income (Loss)	<u>(16,531,638)</u>	<u>(2,947,367)</u>
Increase (Decrease) in Net Assets	(16,531,638)	(2,947,367)
Net Assets -Beginning of Fiscal Year	<u>3,657,875</u>	<u>6,605,242</u>
Net Assets -End of Fiscal Year	<u><u>\$(12,873,763)</u></u>	<u><u>\$ 3,657,875</u></u>

The accompanying notes are an integral part of the financial statements.

MICHIGAN EDUCATION TRUST PLAN D

Statement of Cash Flows Fiscal Year Ended September 30

CASH FLOWS FROM OPERATING ACTIVITIES	<u>2002</u>	<u>2001</u>
Contract receipts	\$ 47,959,932	\$ 25,391,828
Interest and dividends received	1,998,046	2,102,764
Contract payments	(1,291,888)	(624,823)
Administrative and other expenses paid	(743,289)	(195,977)
Application and other fees collected	273,073	182,290
Net Cash Provided from Operating Activities	<u>48,195,874</u>	<u>26,856,082</u>
 CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investment securities	(55,012,191)	(26,324,249)
Proceeds from sale and maturities of investment securities	<u>26,29,431</u>	<u>20,009,234</u>
 Net Cash used by Investing Activities	<u>(28,732,760)</u>	<u>(6,315,015)</u>
 Net Cash Provided (Used) - All Activities	19,463,114	20,541,067
Cash and Cash Equivalents at Beginning of Year	<u>24,393,562</u>	<u>3,852,495</u>
 Cash and Cash Equivalents at End of Year	<u>\$ 43,856,676</u>	<u>\$ 24,393,562</u>
 Reconciliation of Operating Income (loss) to net cash provided from operating activities		
Operating income (loss)	\$ (16,531,638)	\$ (2,947,367)
Adjustments to reconcile operating income (loss) to net cash provided from operating activities:		
Unrealized and realized (gains) losses	52,851	(278,411)
Changes in assets and liabilities:		
Tuition contracts receivable	(17,937,015)	(13,338,909)
Interest and dividends receivable	25,750	(1,577)
Amounts due from Primary Government	(266)	-
Amounts due to MET Program (Plans B & C)	(145,683)	362,649
Tuition benefits payable	82,731,875	43,059,697
	<u>\$ 48,195,874</u>	<u>\$ 26,856,082</u>

The accompanying notes are an integral part of the financial statements.

**MICHIGAN EDUCATION TRUST (Plan D)
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30,2002**

NOTE 1- BASIS OF PRESENTATION AND REPORTING ENTITY

A. Basis of Presentation

The financial statements of the Michigan Education Trust (MET) have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB). New accounting standards were adopted in fiscal year 2000-01. MET adopted GASB Statement No.34, Basic Financial Statements -and Management's Discussion and Analysis -for State and Local Governments, as amended by Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus*, and modified by Statement No.38, *Certain Financial Statement Note Disclosures*. Statement No.34, as amended and modified, commonly referred to as the new reporting model, retained much of the old reporting and disclosure requirements under the prior reporting model, with certain modifications and newly added information. The most significant effect on MET's financial statements was the addition of the management's discussion and analysis as required supplementary information.

B. Reporting Entity

MET was created under Act 316 (the "Act") of the Michigan Public Acts of 1986 (Sections 390.1421-390.1444 of the Michigan Compiled Laws) to operate a prepaid college tuition program. MET is governed by a Board of Directors consisting of nine members including eight public members, appointed by the Governor with the advice and consent of the Senate, and one ex-officio member (the State Treasurer as chairperson). MET is administratively located within the Michigan Department of Treasury .The State Treasurer, as agent for MET , may not commingle funds and must maintain a separate bank account for MET. MET is a proprietary component unit of the State of Michigan (the "State") and is reported as such in the State of Michigan Comprehensive Annual Financial Report. The accompanying financial statements present only MET and are not intended to present fairly the financial position and results of operations and cash flows of the State of Michigan or its component units.

The Act empowers MET, on behalf of itself and the State of Michigan, to enter into a contract with a purchaser which provides that, in return for a specified actuarial determined payment, MET will provide a Michigan child's undergraduate tuition at any Michigan public university or community college. The purchase amount is based on several factors, including tuition costs, anticipated investment earnings, anticipated tuition rate increases, and the type of contract purchased. MET offers a full benefits, limited benefits, and a community college contract. MET's property, income and operations have been statutorily exempted from all taxation by the State and its political subdivisions. The Act and the contracts specifically provide that the State is not liable if MET becomes actuarially unsound. In that event, the contracts provide for refunds to participants.

As of September 30,2002, there have been nine enrollment periods for MET. The 1988, 1989 and 1990 enrollments are known as Plans B and C. The 1995, 1997, 1998, 1999, 2000 and 2002 enrollments are known as Plan D. The Plan D enrollments are accounted for and reported separately from the Plans B and C enrollments. This report covers the Plan D enrollments. A separate financial report and actuarial valuation of Plans B and C enrollments are available from the MET office at P .0. Box 30198, Lansing, Michigan 48909.

**MICHIGAN EDUCATION TRUST (Plan D)
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30,2002**

NOTE 2 -SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Measurement Focus and Basis of Accounting

The financial statements of MET are prepared using the economic resources measurement focus and are prepared on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when the materials, services, or benefits are received. Service fees and other fees and charges are recorded as income when earned, and the associated administrative expenses are recorded as incurred. Tuition benefit expense represents accretion of the tuition benefits obligation (see note 5).

As allowed by GASB Statement No.20 Accounting and Financial Reporting for Proprietary Funds and other Government Entities that Use Proprietary Fund Accounting, MET follows all GASB pronouncements and those Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedures that were issued on or before November 30, 1989, except those that conflict with a GASB pronouncement.

B. Assets. Liabilities. and Net Assets

Cash and Cash Equivalents: Cash reported on the balance sheet includes deposits with financial institutions, and cash equivalents such as short-term investments with original maturities of less than three months used for cash management rather than investing activities.

Cash and Investments: MET's deposits and investments are held in a fiduciary capacity by the State Treasurer. The Act authorizes MET's Board of Directors to invest MET's assets in any instrument, obligation, security, or property that it considers to be appropriate. The Act also authorizes the pooling of MET's assets with assets of the State, such as the pension funds, for investment purposes.

Investments are carried at market value (see note 3).

The Act requires all deposits of MET to be secured by obligations of the United States or of the State. The market value of these obligations must at all times be equal to or greater than the amount of the deposits of MET, and all banks and trust companies are authorized to give such security for such deposits.

Tuition Contracts Receivable: The present value of the future monthly purchase contract payments is recorded as a current and noncurrent asset of MET. The discount rate applied to expected future cash flows to determine present value is 7.0%.

Liabilities: The actuarial present value (APV) of the future tuition obligation is recorded as a current and noncurrent liability of MET (see notes 5 and 6).

Net Assets: MET's net assets represent the investment appreciation and the investment revenue in excess of the APV of the future tuition obligation and expenses (see note 5). Net assets are restricted due to the contractual obligations MET must adhere to on behalf of the purchasers and beneficiaries for which prepaid tuition was collected and invested. The enabling legislation for MET is P.A. 316 of 1986. Section 17 of the act indicates that "the assets of the trust shall be preserved, invested, and expended solely pursuant to and for the purposes set forth in this act and shall not be loaned or otherwise transferred or used by the State for any purpose other than the purposes of this act."

MICHIGAN EDUCATION TRUST (Plan D)
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2002

NOTE 3 -DEPOSITS AND INVESTMENTS

A. General Information

The Governmental Accounting Standards Board (GASB) Statement No.3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements*, requires certain disclosures regarding policies and practices with respect to deposits and investments and the credit risk associated with them.

Deposits: In accordance with GASB Statement No.3, deposits are classified into three categories of credit risk, as follows:

Category 1: Insured or collateralized with securities held by the entity or by its agent in the entity's name. Category 2: Collateralized with securities held by the pledging financial institution's trust department or agent in the entity's name.

Category 3: Uncollateralized, including bank balances that are collateralized with securities held by the pledging financial institution or by its trust department or agent but not in the entity's name.

Investments: In accordance with GASB Statement No.3, investments are also classified into three categories of credit risk, as follows:

Category 1: Insured or registered, or securities held by the entity or its agent in the entity's name. Category 2: Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the entity's name.

Category 3: Uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the entity's name.

- B. Deposits: At year end, the carrying amount of MET's deposits for Plan D was \$1,063,988. The deposits were reflected in the accounts of the banks at \$1,063,988. The September 30, 2002 balances were covered by Federal depository insurance or collateral held with MET's agent in MET's name and accordingly classified in GASB credit risk category 1 .

- C. Investments: The following table shows the carrying amounts and market values of investments for Plan D, by investment type and in total (in millions) at September 30, 2002:

	GASB Category			Not Categorized	Total Carrying Value	Market Value
<u>Investments</u>	<u>#1</u>	<u>#2</u>	<u>#3</u>			
Commercial Paper	\$42.8				\$ 42.8	\$ 42.8
Government Securities	77.1				77.1	77.1
Corporate Bonds & Notes	12.3				12.3	12.3
Mutual Funds				\$ 18.2	18.2	18.2
Total Investments	<u>\$132.2</u>	<u>\$0.0</u>	<u>\$0.0</u>	<u>\$ 18.2</u>	150.4	<u>\$ 150.4</u>
Less Investments Reported as Cash and Cash Equivalents on Statement of Net Assets					(42.8)	
Total Investments Per Statement of Net Assets					<u>\$107.6</u>	
<u>As Reported on Statement of Net Assets</u>						
Cash and cash equivalents					\$42.8	
Noncurrent investments					107.6	
Total Investments					<u>\$150.4</u>	

**MICHIGAN EDUCATION TRUST (Plan D)
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2002**

NOTE 4- TUITION CONTRACTS RECEIVABLE

The following summarizes tuition contracts receivable for installment contracts as of September 30, 2002 and 2001:

	<u>2002</u>	<u>2001</u>
Tuition Contracts Receivable	\$ 57,380,057	\$ 35,361,142
Present Value Discount	(10,598,474)	(6,053,984)
Net Tuition Contracts Receivable	<u>\$ 46,781,583</u>	<u>\$ 29,307,158</u>

NOTE 5 -TUITION BENEFITS PAYABLE

Presented below is the total tuition benefits obligation of MET. The standardized measurement is the APV of the future tuition obligation. This valuation method reflects the present value of estimated tuition benefits that will be paid in future years and is adjusted for the effects of projected tuition increases and termination of MET contracts.

	<u>September 30, 2002</u>	<u>September 30, 2001</u>
Market Value of Net Assets excluding Tuition Benefits Obligation	\$193,490,920	\$127,290,683
Present value of future benefits payable and expenses, assuming the fund earns 7.0% (7.0% for 2001)	206,364,683	123,632,808
Net Assets in excess of Tuition Benefits Obligation	(12,873,763)	3,657,875
Net Assets as a Percentage of Tuition Benefits Obligation	94%	103%

The most important assumptions used in the actuarial valuations include the following:

The discount rate applied to expected future cash flows to determine present value is 7.0%. This discount rate approximates the expected investment yield over the lifetime of the present tuition benefit contracts.

Projected Tuition Increase is 5.84% compounded annually for the next five years and 7.30% for the balance of the period. The Board continued with a two-tier formula for adjusting the tuition increase assumption. The short-term increase assumption of 5.84% (5 years through 2008) was based on an extrapolation of recent experience. The Board also considered the relationship of tuition increases to the consumer price index in determining the long-term tuition increase assumption of 7.30%.

Federal Income Tax - No tax effect.

Selection Against Trust (Bias) - MET will pay 110% of the MET weighted average tuition in benefits and refunds.

Presented below are the key assumptions used in the actuarial valuation for Plan D:

	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>
Tuition Increase	5.84%	5.71%	5.81%	6.30%	6.86%
Tuition Increase Long Term	7.30%	7.30%	7.30%	7.30%	7.30%
Present Value Discount Rate	7.00%	7.00%	6.83%	6.83%	7.80%

**MICHIGAN EDUCATION TRUST (Plan D)
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2002**

NOTE 6 - LONG- TERM LIABILITIES

The following summarizes the tuition benefit obligation payable as of and for the fiscal years ended September 30, 2002 and 2001:

	Tuition Benefit Payable
Balance at October 1, 2000	\$ 80,573,111
Expense provision	43,684,520
Payments	<u>(624,823)</u>
Balance at September 30, 2001	123,632,808
Expense provision	84,023,763
Payments	<u>(1,291,888)</u>
Balance at September 30, 2002	<u>\$ 206,364,683</u>

The amounts due within one year for the fiscal years ended September 30, 2002 and 2001 are \$1,500,000 and \$1,000,000, respectively. Actuarial assumptions described in Note 5 have a significant impact on the tuition benefit liability. Actual results may differ from the assumptions utilized.

NOTE 7 - TAX STATUS

On November 8, 1994, the U.S. Court of Appeals for the Sixth Circuit ruled that MET is an integral part of the State of Michigan, and thus, the investment income realized by MET is not currently subject to federal income tax.

Distributions made in excess of contributions (whether to the refund designee or beneficiary or to a college on behalf of the beneficiary) are taxable income to the refund designee or the beneficiary. After January 1, 2002, these excess distributions were no longer subject to federal income tax, if used for qualified higher education expenses.

On August 20, 1996, the Small Business Job Protection Act of 1996 (the "1996 Tax Act") was signed into law which included a provision adding a new section to the Internal Revenue Code of 1986 defining "qualified state tuition programs." A qualified state tuition program is generally exempt from income tax, but is subject to unrelated business income tax. MET has no unrelated business income.

In May 1997 MET submitted a request for ruling to the Internal Revenue Service (IRS) for verification that MET is in compliance with the 1996 Tax Act. On December 23, 1997, the IRS issued a favorable ruling which confirms that MET meets the requirements for exemption from federal income tax as a qualified state tuition program described in section 529 of the Code.

NOTE 8 - RISK MANAGEMENT

MET participates in the State of Michigan's (primary government) risk management program. The State is self-insured for most general liability and property losses, portions of its employee insurance benefit and bonding programs, automobile liability, workers' compensation and unemployment claims. The State Sponsored Group Insurance Fund and Risk Management Fund (Internal Service Funds) have been established by the State to account for these self-insured risk management programs. As a participant, MET recognizes expenses for payments made to the State in a manner similar to purchasing commercial insurance. Charges to finance the self-insured programs are based on estimates of amounts needed to pay prior and current year claims as determined annually by the Department of Management and Budget.



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MET QUOTE:

“This program is a blessing.” Gladis Elaile, purchaser



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Michigan Education Trust Change of Address

It is important that we have correct addresses and phone numbers. Please notify us when a **permanent address** change is made. This will enable us to mail the appropriate individual important program information such as tax information used for income tax purposes. The MET contract is a legal document therefore, any changes to the contract must be made in writing to the MET office and mailed to the address listed below. Either the Purchaser, Beneficiary or Appointee must sign this form. *The Beneficiary must be 18 years of age and can only change his/her address. If change of address applies to more than one beneficiary (Student), please copy this form and submit a separate form for each beneficiary (Student).

This change of address applies to (check all that apply):	
<input type="checkbox"/> Purchaser <input type="checkbox"/> *Beneficiary (Student) <input type="checkbox"/> Appointee	
Contract Number	
Name	
E-mail Address	
New Address	
City and State	ZIP Code
Daytime Phone Number ()	
Signature (Purchaser)	Date
Signature (*Beneficiary)	Date
Signature (Appointee)	Date

MAIL TO:
Michigan Education Trust
P.O. Box 30198
Lansing, Michigan 48909



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